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SUBJECT: Afghans Seek 55 Priority Advisors and Claim Revenue
Success

SUMMARY

¶1. (SBU) The JCMB Standing Committee on Development broadly endorsed the Afghan government's revised Civilian Technical Assistance Plan asking for 55 urgently needed advisor positions. Subsequently, the Finance Minister signaled he hopes donors will provide funding for the Afghan government to directly hire the advisors. The GIROA also announced an almost 100 percent increase in recent revenue collection and specific steps to achieve further improvement. Separately, the IMF resrep described the revenue performance as positive but fragile and urged the U.S. and other donors to press for structural reforms to secure lasting improvement in GIROA fiscal performance. The request for the advisors and other issues will be considered at a JCMB plenary on July 8. End Summary

¶2. (SBU) The JCMB Standing Committee on Economic and Social Development convened June 23 to prepare for the JCMB plenary to be held on July 8. The meeting was co-chaired by UN SRSG Kai Eide and Afghan Finance Minister Omar Zakhilwal. The U.S. was represented by Ambassador Wayne, newly arrived Coordinating Director for Development and Economic Affairs. Eide opened the meeting by announcing that Zakhilwal would also become Afghan co-chair of the JCMB, replacing Senior Minister Hedayat Arsala. Eide said the July 8 meeting would be the last JCMB before the August 20 elections and that it was important for Afghans and the international community to make progress on development now and sustain the momentum through the inevitably distracting election period. Zakhilwal praised the "new spirit of coordination among donors" and also hoped the election period would not interrupt this improved cooperation.

CIVILIAN TECHNICAL ASSISTANCE PLAN

¶3. (SBU) Zakhilwal summarized the GIROA's revised request for civilian technical assistance (TA), which was circulated to donors on June 22 (and emailed to SCA/A). The revised plan retains the principles for TA articulated in the GIROA's original TA plan from April, but prioritizes some 55 advisor positions urgently needed and elaborates on delivery mechanisms. Zakhilwal said the GIROA wants to implement this strategy in two phases: 1) immediately deploy urgently needed TA to priority areas of government through existing delivery mechanisms; and 2) develop a sustainable, Afghan-led program - the National Capacity Development and Technical Assistance Program (NCDTAP) - to manage TA in the future. The GIROA seeks a

pooled, basket-funding mechanism to finance the NCDTAP.

¶4. (SBU) Zakhilwal further proposed creation of new Task Force on Civilian TA, which he said should meet immediately after the requested approval of the whole scheme at the July 8 JCMB. The task force would work to place the 55 urgently needed TA's, monitor their work, and steer creation of the NCDTAP. He urged donors to apply the principles of the TA plan in selecting the 55 TA's, which he hoped could be deployed within a few months, and especially stressed the need for Afghan ownership and for advisors with knowledge of Afghan languages and culture. Regarding the new plan's relation to the original April plan, Zakhilwal said, "The old document is now history."

¶5. (SBU) Donors generally supported the revised TA plan. Ambassador Wayne said the U.S. plans a significant increase in civilian TA and welcomed the GIROA effort to improve coordination and prioritize its requests. He said the U.S. wants to align our assistance with Afghan needs and would seek to attract qualified advisors from the region. He also said UNAMA should play a role in coordinating TA. The U.S. would review the requests for urgently needed TA and see where we could contribute.

¶6. (SBU) The World Bank rep supported the first phase of the proposed plan but expressed concerns about the NCDTAP. She said the Bank does not believe there can be a single National Program that can effectively deliver TA for capacity development in public institutions. The latter is a broader concept involving a mix of interventions beyond TA. She also said a pooled approach to TA delivery had been tried before in Afghanistan - the World Bank-managed Technical Assistance and Feasibility Studies program - and found to be ineffective. It was left that the GIROA would

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circulate a new document reflecting donor comments prior to JCMB consideration of the TA plan.

¶7. (SBU) On June 30, the Finance Minister told USAID Mission Director Frej that he would prefer if the U.S. and other donors provided funding directly to the Finance Ministry for the GIROA to hire the advisors. He argued that donors could establish appropriate mechanisms to monitor use of funds. (Post is considering this proposal.)

REVENUE ACTION PLAN

¶8. (SBU) In the June 23 Standing Committee meeting, Zakhilwal said measures taken since he became finance minister in February have already significantly boosted revenue collection. In the first quarter of Afghan FY 2009-10 (3/20-6/20) the government collected Afs 16.1 billion (\$322 million) in all forms of revenue, up from Afs 8 billion (\$160 million) in the same period of the previous year. He said GIROA collected an average of Afs 2.8 billion (\$56 million) per month in customs revenue in this period, up from Afs 1.6 billion (\$32 million) last year. Zakhilwal said the government can deliver even stronger results moving forward. He described his new Revenue Action Plan, which includes numerous specific measures further to increase revenue as well as specific requests for donor assistance, some of which, the plan notes, the U.S. is already fulfilling. Zakhilwal admitted that the technical advisors needed to support the plan are in addition to the 55 urgently needed TA's identified in the Civilian TA Plan.

¶9. (SBU) Donors strongly welcomed the good news on revenues and expressed support for the new plan. They said recent progress confirmed their long-held view that the GIROA could improve revenue collection and they looked forward to continued improvement. The World Bank rep and USAID Mission Director both noted that some elements of the Revenue Action Plan should become benchmarks under the ARTF Incentive Program, thus offering a concrete donor reward for good performance. The Standing Committee agreed to recommend the Revenue Action Plan to the JCMB plenary for approval.

IMF'S CAUTION ON FISCAL PERFORMANCE

¶10. (SBU) In a separate meeting with Ambassador Wayne and Mission

staff June 29, IMF resrep (protect) noted the improved revenue collection and said it was fine for donors to welcome it. But he cautioned that the improvement was fragile, depended on the activism of a few (replaceable) leaders, and has been achieved mainly by reducing tax leakage resulting from corruption, not durable, structural reform of the tax system. At 7 percent, Afghanistan's revenue-to-GDP ratio remains the lowest in the world. He further worried about increased spending pressure in the run-up to the August elections, and that the international community would lose important leverage to promote fiscal reforms after completion of HIPC debt reduction, tentatively scheduled for November. The IMF resrep urged the U.S. and other donors to support structural reforms to help lock in and strengthen the revenue performance achieved to date.

¶11. (SBU) Ambassador Wayne agreed and said the U.S. would work with other donors to deliver this message to the GIROA. He said the Mission might also issue a public statement following an expected Zakhilwal press conference where he would announce the improvement in revenue collection. Zakhilwal told Ambassador Wayne at another function on June 29 that donor pressure to continue reforms and to meet IMF program requirements was important to moving ahead with his own efforts.

PRIVATE SECTOR DEVELOPMENT

¶12. (SBU) Commerce Minister Shahrani briefly reported to the Standing Committee on progress in the five priority areas for private sector development endorsed by the April JCMB: trade and transit facilitation, licensing reform, support for value-added processing, investment promotion, and capacity development. He went into detail on donor-supported plans to reform business licensing. Noting current, multiple mandates (20 authorities responsible for 50

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licenses), Shahrani said the GIROA wants to make it easier to start, register, and formalize businesses. The GIROA will start with reforms in the Ministry of Commerce and Industries, then move to other ministers, and ultimately aim for an integrated, automated, GIROA-wide one stop shop for business licensing. The U.S. and other donors expressed support for Shahrani's plans. Co-chair Zakhilwal welcomed the Standing Committee's endorsement but added that cabinet approval would first be needed before the GIROA would ask the JCMB to approve the one-stop shop idea. (Comment: This latter proviso implies that some ministries might resist relinquishing their licensing prerogatives.)

ANDS MANAGEMENT INFORMATION SYSTEM

¶13. (SBU) The Ministry of Economy briefed on plans to develop information management processes related to its responsibility for monitoring and evaluation of projects implemented under the ANDS. The UK (DFID) and UNDP will provide TA to develop such processes. The program will start on a pilot basis.

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